NOTES

THE PROPOSAL OF THE CARNEGIE FOUNDATION FOR TEACHERS' INSURANCE

In a recent report of the Carnegie Foundation for the Advancement of Teaching,[1] President Pritchett indicates what he considers the weaknesses of the present pension plan of the Foundation and outlines the features of a proposed plan. He points out that although the fund which the Carnegie Foundation holds must by the conditions of the gift be used in the payment of retirement allowances and similar benefits to college teachers, the particular manner in which this is to be done is left to the discretion of the trustees; that it is their duty and responsibility to work out the best possible plan; that it was in accordance with such responsibility that the Foundation incorporated among its rules for granting retiring allowances the statement that "the Carnegie Foundation for the Advancement of Teaching retains the power to alter these rules in such manner as experience may indicate as desirable for the benefit of the whole body of teachers."

The trustees, at a meeting in November, 1915, received and discussed the Report but took no action except to pass the following resolutions:

WHEREAS, The benefit of the present pension system of the Carnegie Foundation is necessarily confined to a limited number of institutions and does not furnish to the teachers in those institutions adequate protection for themselves and their families; and

WHEREAS, This system and any other non-contributing pension system involves constantly growing financial burdens, increasing the discrimination between associated and non-associated institutions, and creating an annual charge which may ultimately become too great for the fund to bear,

Resolved, That the Board of Trustees approves the efforts of the president to devise a contributory pension system which without unfairness to the just expectations of institutions or individuals under the present rules shall enable

[1] *A Comprehensive Plan of Insurance and Annuities for College Teachers.* (By Henry S. Pritchett, president of the Carnegie Foundation. Bulletin No. 9, 1916.)

The above bulletin was first issued in October, 1915, as "a confidential report" to the Trustees of the Carnegie Foundation and to the teachers of the institutions associated with the Foundation for their criticism and suggestions. In April, 1916, an edition with a "preliminary statement" was issued for general circulation.

the Foundation to expand its sphere of usefulness and ensure its permanent ability to meet all financial obligations expressed or implied;

Further Resolved, That the Board present to the associated institutions for their careful consideration a report of the President of the Foundation upon a comprehensive pension system to be applied in the future, with the request that if they deem desirable they may submit alternative plans or suggestions; and the Board herewith announce that whatever plan is finally adopted will be devised with scrupulous regard to the privileges and expectations which have been created under existing rules.

The weaknesses of the present system according to this report are:

1. Any pension system resting upon an endowment must inevitably reach its limit. The resources of the Foundation and any additions likely to be made to them would provide a pension system in only a limited number of institutions. But seventy-three colleges and universities in the United States and Canada at present share in the benefits of the pension endowment, and if the present plan is continued it is not probable that the list could be extended beyond one hundred.

2. The selection of institutions has been difficult to administer in the best interests of education, and has necessarily been arbitrary.

3. The present plan prevents teachers from passing freely from one educational institution to another. A teacher who is receiving $1,500 in an institution associated with the Foundation will refuse $1,800 from another college. Also there appears to be a tendency among the associated institutions to take advantage of this situation in making advances in salaries.

4. Ten years' experience indicates that age sixty-five is probably too soon to retire teachers; that sixty-eight to seventy would be better.

5. Under the present plan some teachers in associated institutions receive pensions who do not need them, while many deserving and needy teachers in colleges not associated with the Foundation receive nothing. Such inequalities cannot be adjusted under the present plan.

6. The present plan does not really provide protection for the teachers in the associated institutions. A pension is only one part of a plan of protection. Under the present rules a teacher must have twenty-five years' experience as a professor, or thirty years as an instructor and professor, or thirty years as an instructor alone before he is eligible to receive a pension. The Report indicates that of the teachers who begin their work at age thirty "nearly one-half will die before the pensionable age." Some of the most pathetic cases which have been brought to the attention of the Foundation are those in which a young

wife with young children is left helpless by the death of her husband before he has served long enough to become eligible for a pension.

7. A study of pension systems in other countries, ten years' experience under the Foundation's present plans, and the facts disclosed in the correspondence with teachers in institutions affiliated with the Foundation have convinced President Pritchett that a system of gratuitous pensions is based upon the wrong social philosophy. The Report indicates that gratuitous pensions, even where they have been supported by governments, have finally become so heavy a burden that they have had to be modified or discontinued. Furthermore, teachers themselves cannot afford to rely upon a free pension which covers but one hazard of their lives and which may not be realized even at the close of the period of service. Their interests demand that they have some control over the funds out of which their protection or retiring allowances are to be paid, and this can be accomplished only by some contribution on the part of teachers and a definite contract calling for certain payments to them under certain conditions. Letters were sent to some 5,000 teachers in the institutions associated with the Foundation. Replies were received from about 3,500. These replies indicate that teachers would prefer a pension or insurance system to which they would contribute and which would establish the definite contractual relation now absent in the present plan.

The proposed plan presented in the Report purports to be the result of "long study and the counsel of those best qualified to advise." "For the sake of brevity and clearness only such statistical tables are introduced as seem indispensable and references to the literature are for similar reasons infrequent."

The Report indicates that there are three hazards in the life of a teacher which must be taken into consideration in working out a plan for his protection. First, there is the hazard of premature death. This hazard cannot be met by the kind of insurance which teachers have been carrying, that is, high-premium policies with investment features. Replies to letters indicated that of 1,044 policies carried by 1,000 teachers, 455 were endowment and 411 were limited-payment policies. The suggested plan proposes to meet this hazard through term insurance to end at age sixty-five. This, the Report indicates, would enable a teacher to carry a much larger amount of insurance and thus give protection to his family during his earlier years which he does not now enjoy under the present system. To meet the weakness of term insurance it is combined with an annuity to begin at age

sixty-five. This provides for the second hazard in the teacher's life, the possibility of living beyond the productive period. The Report anticipates the objections which may be urged against annuities and suggests that provision could be made for continuing the annuity to the wife during her life and even to the children or for making the payment to the estate. These provisions could be incorporated by having the teacher who desired such a contract pay a greater share than would be paid by his college. Although age sixty-five has been used as a basis for the suggestions concerning term insurance and annuities, it is indicated that the system is to have sufficient elasticity to permit those who are competent to remain in service beyond that age.

The Report assumes that it is the duty both of the teacher and of his college to provide for his protection. The contribution on the part of the college is based in part upon the theory that in the interest of education it should be possible to retire teachers after a certain period of service. It is indicated that the Foundation desires to co-operate in furnishing protection for teachers by providing an agency to furnish insurance at cost. It is intended also that the Foundation shall widen the sphere of its activity from the seventy-three institutions associated with it to the great body of college teachers in the United States, Canada, and Newfoundland. It is suggested that the agency which would furnish the insurance be called "The Teachers' Insurance and Annuity Association" and incorporated under the laws of the state of New York, with a moderate capital stock owned by the Foundation. In addition to its paid-up capital there must be provided a paid-up surplus "sufficient to ensure complete stability," the surplus to be increased from time to time as the number of teachers who participate increases. Such an agency would do insurance business under the direct scrutiny of the State of New York Insurance Department. Although the term insurance is the type recommended in the Report, it is pointed out that this subagency would write in addition the ordinary life policy, twenty-, twenty-five-, and thirty-payment life policies. No policy would be written for more than $25,000.

To provide annuities for teachers there would be organized a second subagency which would probably be called "The Teachers Savings Association." The sole function of this agency would be to receive the payments of colleges and teachers, to invest them in sound securities, and to guarantee a certain interest. Upon the retirement of the teacher the accumulated capital would be paid to the insurance and annuity association for the purchase of an annuity. In case of death before

sixty-five the accumulated capital would either be returned to the widow or invested in an annuity. In case of retirement from the teacher's calling the accumulated capital would be returned with interest at an agreed rate. The Carnegie Foundation is willing to co-operate further by guaranteeing $4\frac{1}{2}$ per cent on these savings. President Pritchett thinks the rate of interest will for some time warrant this rate, and he states that if the rate actually realized should fall to $4\frac{1}{4}$ it could be made up from the funds of the Foundation.

Besides providing subagencies to furnish insurance and annuities at cost and guaranteeing interest at $4\frac{1}{2}$ per cent, the Foundation proposes to assume the third risk in the life of the teacher, which is disability before the close of the normal earning period. The Report maintains that, since this is a risk that cannot as yet be accurately measured, it is desirable not to complicate the systems of insurance and annuities by introducing it into the calculations; also that the experience of the insurance companies indicates that the risk, although uncertain, is not large. For these reasons the proposed plan provides for the assumption of this risk on the following terms: If a teacher holds a contract for insurance and annuity and if his health fails after a service of fifteen years as a professor or twenty years as professor and instructor, the Foundation proposes at its own cost to continue to pay during the period of invalidity the premiums on his life-insurance policy and also a minimum pension of $1,200 a year, the benefits to his family in event of his death being determined by the rules which govern all other cases.

In addition to bearing the cost of administration (including the expenses of the agencies if they are not supported by their own surplus) and assuming the invalidity pensions, the proposed plan further provides that the Foundation shall pay all taxes on the insurance premiums and assist colleges in adjusting the financial load which the adoption of the plan would place upon them.

If the colleges should adopt the plan proposed by the Foundation, it would mean a heavy load upon them to pay their part for the teachers of advanced age. The Report indicates that it has been this specter of accrued liabilities which has prevented college trustees from working out adequate pension systems of their own. But the Report maintains that it would be unjust to refuse, for all time, to inaugurate an adequate system of insurance merely because it could not be adjusted to the teachers of advanced age, and that, on the other hand, any plan which would disregard the interests of those who had given their lives to service in our colleges would be undesirable. The proposed plan

suggests a compromise whereby the college might pay a slightly higher share for its older teachers than for the younger members; also that the older teachers receive less insurance and annuities than if they had entered the system at a younger age. The Report indicates that the Carnegie Foundation will expect, if necessary, to shoulder the load of the accrued liabilities in the seventy-three institutions now associated with it at least for all teachers over forty-five years of age. It is further pointed out that if the proceeds of the Foundation are not exhausted in efforts already indicated, assistance could be rendered in adjusting the accrued liabilities in colleges not now associated with the Foundation. The Report expresses the belief that if colleges adopt the plan it will be necessary for them to include in their own rules as a condition of employment by them that all teachers must come in under the system. It is stated that the management of the new system will be by a board constituted so as to give both teachers and colleges representation thereon.

This Report raises at least two important questions: first, the relation of the Carnegie Foundation to the advancement of teaching, and, second, the merits of the proposed plan from the standpoint of insurance.

The original idea underlying "The Carnegie Foundation for the Advancement of Teaching," as the name indicates, was to advance the teaching profession. The theory upon which the Foundation was launched, as was made clear in the first few pages of the *First Annual Report* of the Foundation, was that teachers ought to have pensions as an addition to their compensation; also that the advancement of teaching demanded the giving of liberal allowances to a limited number of teachers. These desirable prizes, it was thought, would attract able men into the profession.

But in the proposed plan a very different theory is set forth. Although it is contended that the proposed plan will attract able men, it is also emphasized that the social philosophy which justifies teachers' pensions is that aged and incapable teachers can be easily removed from the service. Further, instead of liberal allowances to a select few, it is now proposed that a small amount be given to all. Indeed, all teachers, good, bad, and indifferent, in institutions which decide to accept the proposed insurance are to be forced into the system.

Just as it is doubtless true that in the long run the professions which offer the most substantial rewards attract the best talent, so it would appear that liberal retiring allowances confined to a limited number

of teachers would be more likely to attract able men into the teaching profession than would very small amounts given to many.

President Pritchett considers it a weakness of the present system that some receive pensions who do not need them while others who do need such assistance are not on the pension list. The same reasoning would condemn the institution of private property and demand a scheme of distribution of wealth more on the basis of need than of merit. Until society accepts such a plan of distribution it is not probable that the profession which is placed upon that basis will have a favorable selection of men.

But to argue for liberal allowances to a limited number is not to maintain, as has been done, that "the original conception of the pension system adopted by the Carnegie Foundation, as an aid to education through the increase of compensation to the teacher, was based upon sound social and economic principles."[1] For this original conception was in part that of *institutional selection* coupled with *individual* reward. In actual practice this illogical combination has meant subsidies to institutions and has doubtless prevented salaries from advancing as rapidly as they otherwise would have advanced in the institutions associated with the Foundation. If pensions had been made available only to those institutions that maintained a certain salary scale or that provided that the full professorship be accompanied by a schedule that would permit of productive scholarship, there would have been increased inducement to enter the teaching profession. Furthermore, it is questionable whether the best results have been attained through the indirect method of choosing the individuals entitled to pensions. Of course, the institutional selection is the easiest way, but it is not necessarily the best way. It is quite conceivable that a head of a department or a president might err in the selection of a man who is yet young and whose career lies in the future, but it is not so probable that five hundred or more of his colleagues in his own field in institutions all over the country would err in deciding whether he deserved to be placed on the pension list. There certainly ought to be some method of eliminating the drones even in the associated institutions and of rewarding the deserving persons in non-associated institutions. Such a plan would not prevent teachers from passing freely from one educational institution to another. The Carnegie Foundation has gone outside the seventy-three institutions now associated with it and placed individual professors

[1] "Report of the Committee of the American Association of University Professors on Pensions and Insurance," *School and Society*, December 2, 1916, pp. 861–70.

on its pension list, and it would appear that the same standards of selection could with profit be applied to the associated institutions.

There are some provisions of the proposed plan which would make for the advancement of teaching. One is the contractual relation which it introduces, which would doubtless bring some stability of policy. Adam Smith long ago pointed out that a high tax is less objectionable than a fluctuating tax. There has been much dissatisfaction with the shifting and changing policy which has been followed by the Foundation.[1] Confidence in the Foundation policy received a rather severe shock when the service basis for a pension was withdrawn, making a pension available only to those who had reached a certain age in addition to a certain period of service.[2] In this connection also it may be said that, although the legal right to make changes in the Foundation rules has been reserved, it would appear to be a rather radical move to refuse to continue the present pensions in the associated institutions to teachers under forty-five years of age. Another important feature of the proposed plan is the provision for the representation of teachers in the management. This might have been done under the existing plan.

It is necessary in considering the merits of the existing plan and of the proposed plan to distinguish between the objects to be attained. From the standpoint of the advancement of teaching, if the reasoning so far is sound, it would appear that more able men would probably be induced to enter the teaching profession if substantial rewards were held out to them than if they were able to save something on their life insurance and annuities by being compelled to take out policies through the agencies which are proposed. Nor is it clear that the ultimate saving to teachers would be great, for it is quite conceivable that colleges would consider it less necessary to advance salaries if they were making annual contributions to pay for teachers' insurance and annuities. It has been pointed out that there might be some legal difficulty in the

[1] See "Ten Years of the Carnegie Foundation," by Joseph Jastrow, *School and Society*, October 7, 1916, pp. 533–51; *Harvard Graduates' Magazine* quoted in *School and Society*, September 23, 1916.

[2] An editorial in the *Nation* for March 3, 1910, pointed out that this change must have been based upon a rather misty notion of the Foundation's moral obligations. It was maintained in the *Dial*, November 16, 1911, that President Pritchett was afflicted with phobia about the demoralization of professors, and that according to his philosophy there was more joy in the administrator's heaven over one teacher who was thwarted than there was grief concerning the welfare of ninety and nine that needed no thwarting.

case of contributions by state institutions, and the suggestion has been made that it might suffice to have some existing company furnish insurance to teachers less agents' commission.[1] But it is probable that a legal difficulty would arise here also, inasmuch as many states have anti-discrimination laws. If a new company were formed that wrote nothing but policies for teachers, this discrimination would not exist.

It is difficult to discuss the proposed plan from the standpoint of insurance, for the report is very incomplete. It is doubtless only fair to assume that many details not now given will be supplied before any final action will be requested, and it does not, therefore, appear wise to enter into detailed criticism of the plan from this angle. However, one or two general principles may be noticed. It is indicated that the new plan is proposed because among other things it offers protection from the time the teacher enters the service. This is an important point, but there appears to be inconsistency in the proposal to limit the disability provision to those who have been in service fifteen years. The tendency of life-insurance companies is now to include the disability clause in policies. Ten years ago the clause was used principally by the younger and smaller companies. They made use of it as an effective talking-point in their competition with the older companies. More recently it is receiving more serious consideration by the old and important companies and is being written into their policies. The principle of disability has in part been recognized for some time in the limited-payment policies. It is probable that the future will bring even greater use of the clause and a more liberal interpretation of it, with a probable increase in the charge which is made for including it in policies.

The fact that the risk of disability is of small consequence does not alter the fact that to every individual teacher it is a possible risk, and if the function of insurance is to eliminate risk, provision should be made for making the disability clause effective from the beginning of the teacher's service. President Pritchett himself, in emphasizing the weaknesses of the present system, points out that the most needy and pathetic cases that have come before the Foundation did not come under the rules of the Foundation because the teacher had not been sufficiently long in the service. The same reasoning would indicate that the consequences from disability would probably be more serious to the teacher and his family before fifteen years of service than afterward.

[1] "Report of Committee of American Association of University Professors on Pensions and Insurance," *School and Society*, December 2, 1916.

Term insurance combined with an annuity is more suitable for college teachers than the high-priced policies which the Report indicates they have been carrying. But it would have been well to carry the fitting of the policy to the policy-holder somewhat farther. Such a policy as was recently described by the senior ex-president of the Actuarial Society of America[1] would appear to be more suitable for college teachers than the one proposed in this Report. The central idea of this proposal is to provide a type of term insurance that varies in amount as the risk in the different periods of the policy-holder's life would demand. Thus during the period when the family responsibilities were heaviest the policy would call for the maximum amount, but as the policy-holder approached age sixty-five and his family would be less dependent upon him the amount of the policy would automatically decline. From the standpoint of protection and the limited amount which teachers can afford to pay for insurance, such a plan would appear preferable to the type of term insurance emphasized by President Pritchett.

At the regular meeting of the trustees of the Foundation in November, 1916, this Report was referred to a committee composed of "six trustees and five representatives of the Association of American University Professors, Association of American Universities, National Association of State Universities, and Association of American Colleges."

It is to be hoped that the reference of this Report to the educators represented in these various committees will result in a thorough discussion of the plan from the standpoint of the advancement of teaching. Furthermore, there should be a much more comprehensive presentation of the insurance plan than is included in the Report, and expert consideration should be given to it before any action is taken.

C. O. Ruggles

Ohio State University

WASHINGTON NOTES

END OF THE "SHIPPING POOL" CASES

In handing down a decision in the case of the *United States* v. *The American-Asiatic Steamship Company* and others (Nos. 138 and 169, October term, 1916), the Supreme Court of the United States has practically closed the so-called steamship conference cases. The essential

[1] *Proceedings of Life Insurance Presidents*, 1912. See also a pamphlet by Professor C. E. Brooks, *Life Insurance for Professors*, published by the University of California, 1916.